

## UK Accounting: A Synopsis

Accounting is a vital aspect of any business, as it provides a systematic way of recording, analyzing and reporting financial transactions. The United Kingdom has a well-established accounting system that provides a framework for businesses to manage their finances. In this blog post, we will take a closer look at the regulatory framework governing the UK accounting system, Accounting Standards and the features of the UK accounting system,.



### Regulatory Framework

In the UK, accounting practices are regulated by several bodies, including the Financial Reporting Council (FRC), established in 1990, the Institute of Chartered Accountants in England and Wales (ICAEW), and the Association of Chartered Certified Accountants (ACCA). The FRC is responsible for setting accounting and auditing standards, while the ICAEW and ACCA are professional bodies that provide training and support to accountants.

In addition to the above, there are other regulatory bodies also that oversee the UK accounting system. These include:

- **Companies House:** Companies House is the UK's official register of companies. It is responsible for maintaining records of all companies registered in the UK and ensuring that they comply with the Companies Act.
- **HM Revenue and Customs (HMRC):** HMRC is the UK's tax authority. It is responsible for collecting taxes and ensuring that companies comply with tax laws.

### Accounting Standards

The FRC has established a set of accounting standards known as UK Generally Accepted Accounting Practice (GAAP). UK GAAP is a collection of accounting principles that govern how businesses prepare and present their financial statements. It is based on the International Financial Reporting Standards (IFRS) and is intended to ensure consistency in financial reporting across all businesses in the UK.

UK GAAP includes four key accounting standards: FRS 100, FRS 101, FRS 102, and FRS 105. These standards provide guidance on various aspects of financial reporting, such as the

presentation of financial statements, the treatment of assets and liabilities, and the disclosure of financial information.

### **Financial Reporting for Small Businesses**

Small businesses in the UK may use FRS 105, which is designed for micro-entities. Micro-entities are defined as businesses that meet at least two of the following criteria: turnover of £632,000 or less, assets of £316,000 or less, and fewer than 10 employees. FRS 105 provides simplified accounting requirements for these businesses, which include reduced disclosure requirements.

### **Financial Reporting for Large Businesses**

Large businesses in the UK may use FRS 102, which is designed for entities that do not qualify as micro-entities. FRS 102 provides more detailed accounting requirements than FRS 105 and includes requirements for the presentation of financial statements, the recognition of assets and liabilities, and the disclosure of financial information.

### **Adoption of International Financial Reporting Standards**

The UK adopted IFRS in 2005, and all UK companies listed on the London Stock Exchange are required to prepare their financial statements in accordance with IFRS. In addition, some UK companies may choose to adopt IFRS voluntarily, even if they are not required to do so. IFRS provides a set of guidelines for financial reporting, which includes rules for revenue recognition, asset valuation, and financial statement presentation.

The FRC also issues Financial Reporting Standards (FRSs) and the Statements of Standard Accounting Practice (SSAPs). Furthermore, the FRC also oversees the work of the professional bodies that regulate the accounting profession.

### **Features of the UK Accounting System**

The UK accounting system has several features that make it unique. Here are some of the key features:

1. **Double-entry bookkeeping:** This is a fundamental principle of UK accounting. It involves recording every transaction in two accounts, which ensures that the accounting equation ( $\text{Assets} = \text{Liabilities} + \text{Equity}$ ) is always balanced.
2. **Accrual accounting:** The UK accounting system uses accrual accounting, which means that transactions are recorded when they occur, not when the cash is received or paid. This provides a more accurate picture of a company's financial position.
3. **True and fair view:** The UK GAAP requires that financial statements present a true and fair view of a company's financial position. This means that financial statements must be accurate, reliable, and free from bias.

4. **Disclosure requirements:** The UK accounting system has strict disclosure requirements, which means that companies must provide detailed information about their financial position, performance, and cash flow. This information must be presented in the financial statements, notes to the accounts, and management commentary.

### **Conclusion**

In conclusion, accounting is an essential function for any business operating in the UK. It is based on IFRS, UK GAAP, FRSs and SSAPs and is overseen by FRC. The regulatory framework, principles, and practices of accounting in the UK are designed to ensure that companies provide accurate and reliable financial information to their stakeholders.

Please feel free to get back with your inputs

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